



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

April 30, 2009

Cameron Lewis
Director of Human Resources Information Management
Cadence Design Systems, Inc.
2655 Seely Avenue, Mail Stop 51A
San Jose, CA. 95134

Dear Mr. Lewis:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET05-0108 for the period July 6, 2004 through July 5, 2006.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager at (916) 327-4758.

Sincerely,

Original signed by:

Stephen Runkle
Audit Manager

Enclosures

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CADENCE DESIGN SYSTEMS, INC.

Agreement No. ET05-0108

Final Audit Report

For The Period

July 6, 2004 through July 5, 2006

Report Published April 30, 2009

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ET05-0108.fnl

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AUDITOR'S REPORT

Summary

We performed an audit of Cadence Design Systems, Inc., Agreement No. ET05-0108, for the period July 6, 2004 through July 5, 2006. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit fieldwork was performed during the period May 19, 2008 through May 23, 2008.

The Employment Training Panel (ETP) paid the Contractor a total of \$533,918. Our audit supported that \$532,427 is allowable. The balance of \$1,491 is disallowed and must be returned to ETP. The disallowed costs resulted from 4 trainees who did not complete sufficient class/lab training hours. We also noted an administrative finding for 1 trainee who did not meet retrainee eligibility requirements.

AUDITOR'S REPORT (continued)

Background Founded in 1988, Cadence Design Systems, Inc. (Cadence) is a maker of electronic design automation software. Headquartered in San Jose, the company employs approximately 1,850 Californians.

This Agreement was the second one between Cadence and ETP. Since Cadence faces strong competition in its industry from companies outside California, this training project sought to enable the company to quickly and successfully respond to new industry developments and changing customer demands. It proposed to allow Cadence to retrain workers who design, manufacture, and support new electronic design automation technologies. The training is highly technical since over 95 percent of the work performed utilizes advanced computer systems and software. Therefore the Agreement provided for training in advanced technology, business skills, computer skills, and continuous improvement.

This Agreement allowed Cadence to receive a maximum reimbursement of \$990,535 for retraining 1,555 employees. During the Agreement term, the Contractor placed 696 trainees and was reimbursed \$533,918 by ETP.

Objectives, Scope, and Methodology We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Cadence Design Systems, Inc. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Cadence Design Systems, Inc., complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.
- Trainees were employed continuously full-time with Cadence Design Systems, Inc., for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.

AUDITOR'S REPORT (continued)

- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$532,427 of the \$533,918 paid to the Contractor under this Agreement was allowable. The balance of \$1,491 was not earned according to the terms of the Agreement and must be returned to ETP.
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Views of Responsible Officials	The audit findings were discussed with Cameron Lewis, Director of Human Resources Information Management, at an exit conference held on May 23, 2008 and by telephone on August 15, 2008. Mr. Lewis agreed to bypass issuance of the draft report and proceed to the final review report.
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The issuance of your final audit report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning May 24, 2008, through the issue date of this final audit report. The interest waiver (adjustment) was \$103.35, which was deducted from the total accrued interest.

Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
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Records	Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years
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AUDITOR'S REPORT (continued)

from the date of the last payment by ETP to the Contractor, or (3) years from the date of resolution of appeals, audits, claims, exceptions, or litigation, whichever is later.”

Stephen Runkle
Audit Manager

Fieldwork Completion Date: May 23, 2008

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET05-0108 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

CADENCE DESIGN SYSTEMS, INC.

AGREEMENT NO. ET05-0108

FOR THE PERIOD

JULY 6, 2004 THROUGH JULY 5, 2006

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 533,918</u>	
Costs Disallowed:		
Insufficient Training Hours Attended	1,491	Finding No. 1
Retrainee Eligibility Not Met	-	Finding No. 2
Total Costs Disallowed	<u>\$ 1,491</u>	
Training Costs Allowed	<u><u>\$ 532,427</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Training records maintained by Cadence Design Systems, Inc. Insufficient
Training Hours (Cadence) did not support the reported training hours for four
Attended trainees. Therefore, we disallowed:

1) \$420 in training costs claimed for Trainee Nos. 1 and 2 (42 Advanced Technology hours x \$20 per hour).

2) \$179 in training costs claimed for Trainee No. 4 [(3 Class/Lab hours x \$13 per hour) + (7 Advanced Technology hours x \$20 per hour)].

3) \$472 in training costs for Trainee No. 5 [(4 Class/Lab hours x \$13 per hour) + (21 Advanced Technology hours x \$20 per hour)].

Title 22 California Code of Regulations (CCR), Section 4442(b) requires Contractors to maintain and make available records that clearly document all aspects of training. Classroom/laboratory training records must include the training date(s) and hours attended, training type, and the trainer and trainee's signatures.

Paragraph 2 (b) of the Agreement states: "Each trainee should complete 100% of the required class/lab and videoconference training hours. Reimbursement for class/lab and videoconference training for trainees in job number 1 will be based on the total actual number of training hours..., up to the maximum specified in Chart 1, providing the minimum and no more than the maximum hours are met."

Exhibit A, Chart 1, page 5 of 6, of the Agreement required that Job No. 1 trainees complete between 24 to 200 class/lab hours. The Agreement also provided for Advanced Technology training. The reimbursement rate for this Agreement was \$13 per hour for normal Class/Lab training, and \$20 per hour for Advanced Technology (AT) training.

The Contractor reported that Trainee No. 1 completed 32 Class/Lab training hours and 106 AT training hours for a total of 138 training hours, and that Trainee No. 2 completed 55 Class/Lab training hours and 70 AT training hours for a total of 125 training hours. However, Trainee Nos. 1 and 2 were recorded as both trainees and instructors on the multi-day roster dated September 26 – 28, 2005 that reflected 21 hours of the AT training for which ETP reimbursed the Contractor for each trainee. Cadence cannot receive reimbursement for employees acting in the capacity of instructors. Thus, we disallowed 42 AT hours for these trainees (21 + 21).

FINDINGS AND RECOMMENDATIONS (continued)

The Contractor reported that Trainee No. 4 completed 42.5 Class/Lab training hours and 48.5 AT training hours. However, the Contractor's records only supported 39.5 Class/Lab hours and 41.5 AT hours completed for Trainee No. 2 due misreported hours on a Class/Lab multi-day roster dated March 2 – 5 2005 and a missing trainee signature on an AT roster dated March 17, 2006. Thus, we disallowed 3 class/lab hours and 7 AT hours for this trainee.

The Contractor reported that Trainee No. 5 completed 4 Class/Lab training hours and 21 AT training hours for a total of 25 training hours. However, the Contractor's records supported zero AT hours completed for this trainee due to his also being recorded as both a trainee and an instructor on the multi-day roster dated September 26 – 28, 2005 that reflected the 21 hours of AT training for which ETP reimbursed the Contractor for this trainee. As noted above, Cadence cannot receive reimbursement for an employee acting in the capacity of an instructor. Thus, we disallowed 21 AT hours for this trainee. As a result, Trainee No. 5 failed to complete the minimum of 24 training hours required by the Agreement.

Recommendation Cadence must return \$1,491 to ETP. In the future, the Contractor should ensure that training records support hours submitted for reimbursement from ETP. Additionally, the Contractor should ensure that instructor hours are not submitted for reimbursement by ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – Employment information provided by Cadence shows one trainee
Retrainee was ineligible to receive training. The trainee did not meet
Eligibility Not Met employment requirements prior to the start date of training. As a
result, the Contractor did not comply with the terms of the
Agreement.

Exhibit A, paragraph 3 of the Agreement between ETP and Cadence requires that trainees be employed full-time by the Contractor or a participating employer for at least 90 days before the trainee begins training. Otherwise, to be eligible a trainee must have been employed at least 20 hours per week for at least 90 days by an eligible employer during the 180-day period preceding the trainee's hire date with the current employer.

Cadence records indicate that Trainee No. 3 was hired on August 1, 2005 and began training on August 25, 2005, less than 90 days prior to the start of training. Employment Development Department base wage information shows she was not employed full-time for at least 20 hours per week for at least 90 of the 180 days preceding the hire date.

Recommendation In the future, Cadence should comply with all terms specified in an Agreement with ETP. Failure to comply with the terms of an Agreement may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A – Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006